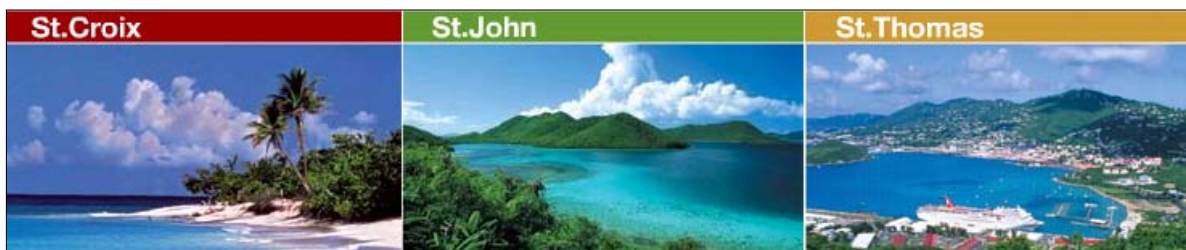


UNITED STATES VIRGIN ISLANDS BUSINESS OPPORTUNITIES REPORT

*PREPARED FOR THE UNITED STATES DEPARTMENT OF THE INTERIOR
OFFICE OF INSULAR AFFAIRS*



Disclaimer

This document has been prepared by MBA students, or recent graduates, to disseminate information on the United States Virgin Islands prior to the 2006 "Business Opportunities Mission" sponsored by the U.S. Department of the Interior, Office of Insular Affairs. The views and recommendations contained in this document, however, are solely those of its authors and not the U.S. Government or any agency or officer thereof.

Those intending to initiate ventures in this location are advised to conduct independent due diligence.
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Acknowledgements

Monique Wedderburn, MBA Candidate from the University of Hawaii and 2004 Pacific Island Fellow, prepared this report.

Annamaria Cherubin, MBA Candidate from the Wharton School at the University of Pennsylvania and 2005 Pacific Island Fellow, revised this report.

The United States Virgin Islands (Virgin Islands) possesses significant economic growth potential. This is especially true of the island of St. Croix. Specific business opportunities in the Virgin Islands include the expansion of the tourism, information and technology, maritime, and manufacturing sectors. The retirement, agriculture, and aquaculture sectors are also areas that present business opportunities.

Historically the economy was dependent on commercial trade and sugarcane cultivation. In the 1960's the economy diversified into manufacturing and tourism based activities. During the 1960's, St. Thomas also became a popular tourist destination for U.S. mainlanders and Europeans. Today tourism, with a gross territorial product (GTP) contribution of approximately 60 percent, is the main growth element and the largest contributor to the Virgin Islands' economy. St. Thomas still remains the center of tourism for the Virgin Islands with a reported 948 cruise ship calls in 2004. In 2004, visitor arrivals reached 2.6 million, of which, a majority 1,922,626 were cruise tourists¹. The manufacturing sector, comprised of petroleum and rum, also contributes significantly to the island economy.

Recently, the local government has increased its efforts to diversify the Virgin Islands' economic base. The centralization of the government economic operations into one agency, the Economic Development Authority (EDA), and its generous tax incentives are illustrations of the government's efforts to boost private sector development. Increased capital improvement projects and the development of several commercial and technological sites are additional efforts that have been implemented to attract private industry.

The Virgin Islands' close proximity to the mainland U.S. and its U.S. territorial status provide the islands with a competitive advantage. The territory has one of the best natural deepwater harbors in the Caribbean and is strategically located along the Anegada Passage – a key route for ships bound for the Panama Canal. Potential investors will also find familiar tax, legal and intellectual property rights. The territory's developed infrastructure and high-quality fiber optics telecommunication system also provide an opportunity to conduct businesses efficiently.

This report presents a basic and general understanding of the business and investment climate in the Virgin Islands. The report highlights the economic, legal, structural benefits and identifies specific business opportunities available in the territory. The development strategy detailed in this report is based on projects identified by the local government and private industry. Investment in these specific sectors is potentially beneficial financially and serves to position the Virgin Islands toward sustainable economic development.

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The U. S. Virgin Islands (Virgin Islands), an unincorporated territory of the United States (U.S.), was purchased from Denmark by the U.S. in 1917 for US\$2.5 million. Located between the Caribbean Sea and the North Atlantic Ocean, the territory is in close proximity to the continental U.S. and the eastern region of Puerto Rico. The Virgin Islands (68 cays and islands) is comprised of three main islands: St. Thomas, St. John, and St. Croix. Each island is geographically and economically distinct. Collectively, the Virgin Islands measures approximately 136 square miles with St. Thomas and St. John located 3 miles apart and St. Croix situated 40 miles to the West of St. Thomas. Some of the world's best ecological and historical sites are found in the Virgin Islands, and the islands are rich in colonial history and Caribbean cultures.



Source: <http://worldatlas.com/webimage/countrys/namerica/caribb/vi.htm>

St. Thomas, 32 square miles in area, is home to the territory's capital, Charlotte Amalie, and an estimated population of 52,184 persons. Historically, St. Thomas thrived as a trading post for European ships passing through the Caribbean. The island has one of the best natural deepwater harbors in the Caribbean and is strategically located along the Anegada Passage – a key route for ships bound for the Panama Canal. During the 1960's, St. Thomas became a popular tourist destination for U.S. mainlanders and Europeans. Today, St. Thomas still remains the center of tourism for the Virgin Islands with a reported 948 cruise ship calls in 2004. In 2004, visitor arrivals totaled 2,623,300, of which, a majority 1,922,626 were cruise tourists².

St. John³, home to an estimated 4,279 people, is a small island measuring 20 square miles in area. Two-thirds of St. John is covered by a national park with developed underwater and eco-tourism industries. St. John's economy is predominantly dependent on tourism. With St. Thomas only three-miles away, St. John attracts day excursionist and high-end vacationers with luxury hotels and vacation homes. Due to its relative size and proximity to St. Thomas, St. John is often aggregated with St. Thomas in promotions and policy matters.

BACKGROUND

St. Croix, 84 square miles in area, is the largest of the three inhabited islands and home to an estimated 54,000 persons. Prior to the 1960's, St. Croix's economy depended solely upon sugar cane cultivation. In the 1960's the island economic structure diversified into manufacturing and tourism. Today, St. Croix's economy is predominantly manufacturing based, and largely dependent on petroleum and rum exports. Hovensa, the largest petroleum refinery in the western hemisphere, is a joint partnership between Amerada Hess and PDVSA, Venezuela's national oil company, and is located on St. Croix. In 2003, Hovensa employed over 1,600 workers and shipped US\$4.8 billion of refined petroleum products to the United States. Virgin Islands Rum Industries Ltd., also located on St. Croix, is a top exporter of Cruzan, Old St. Croix and bulk rum to the mainland U.S.

Table 1: Key Economic Statistics

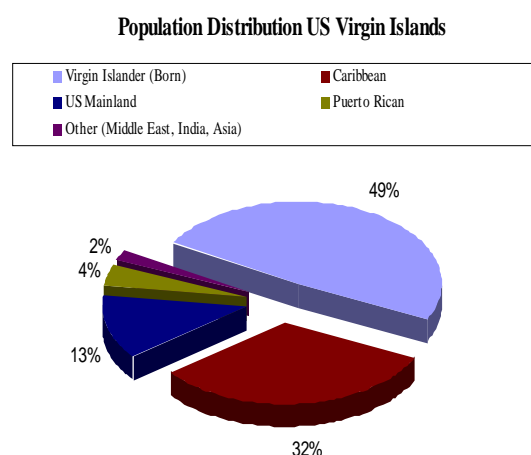
Population	108,708 (2005)	Gross Territorial Product (GTP, \$ mil)	\$2,550
Total Labor Force	50,066	(% Tourism 1999)	60%
Total Employment*	46,380	Gross Territorial Product Growth	3.5%
Private Sector	30,166 (70%)	Per Capita Personal Income (U.S. \$ thous.)	\$17,932
Federal Government	860 (2%)	Imports (U.S. \$ mil)	\$5,570
Local Government	11,508 (25%)	Exports (U.S. \$ mil)	\$5,560
Unemployment Rate* (%)	8.6%		
Total Land Mass	136 sq. miles		

Sources: United States Virgin Island (USVI) Bureau of Economic Research (BER) (2004); US Census (2000)

Demographics

The resident population of the Virgin Islands reached an estimated 108,708 in July 2005. The population growth rate is -.06 percent and life expectancy at birth is 78.91 years⁴. Approximately 50 percent of the population lives on St. Thomas, 48 percent lives on St. Croix and 2 percent lives on St. John. Per capita income is estimated at approximately \$17,932 (See Table 1).

The population of the Virgin Islands is diverse, comprised of 78 percent black, 10 percent white and 12 percent other. While 81 percent of the population is of West Indian descent, only 49 percent were born in the Virgin Islands. The remaining 32 percent have migrated from other islands in the Caribbean region. U.S. mainlanders and Puerto Ricans comprise approximately 13 percent and 4 percent, respectively of the total population. The remaining 2 percent is a mixture of immigrants from across the world including the Middle east, India and Asia (See Figure 1). (Source: US Census Bureau 2000)⁵

Figure 1

Recent Economic Performance⁶

The Virgin Islands economy is predominantly dependent on revenues generated from its tourism and manufacturing sectors. Tourism, primarily concentrated on St. Thomas, is the largest revenue generator and the main growth element in the economy with a GDP-contribution of approximately 60 percent. The manufacturing sector, primarily located on St. Croix, consists of petroleum refining, rum production, and a watch assembly plant. In 2004, exported rum excise taxes contributed an estimated US\$82.9 million to the overall gross territorial product.

Federal and territorial government jobs account for 32 percent of employment. Tourism comes in second with an annual average of 23.5 percent. The agricultural sector is small, with most food being imported. International business and financial services, accounting for an estimated 8.1 percent of employment, is third highest employer after government and tourism employment.

According to the Bureau of Economic Research (BER), the 2004 Gross Territorial product (GTP) is estimated to have grown by 3.5 percent. This performance was based on several factors, including personal income spurred by tax cuts and growth in the tourism, financial services, rum, and construction industries. The positive performance resulted in private sector job growth. The BER reported gains in all sectors and a decrease in unemployment rates for the year ending 2004. The unemployment rate was estimated at 7.9 percent, a decrease of 1.05 percentage points below the 9.4 percent reported at the end of 2003. St. Croix has a higher unemployment rate, estimated at 10.8 percent as compared to 7 percent on St. Thomas and St. John.

In 2004, the US\$60 million is attributed to the reliance on one-time sources of revenues and drawing down reserves to balance the budget. In FY 2005 the deficit is projected at US\$92.4 million. A growth in taxable income along with a strong real estate market led to a rebound in tax collections, which jumped from US\$499.4 million to US\$610.7 million. Additional factors contributing to overall decrease in deficit include the private sector job growth and reduced public sector expenditures.

The government reduced the Virgin Islands' financial deficit by substantially reducing the cost of government operations. Specific actions taken to resolve the budget deficit included the implementation of a hiring freeze, reduction in administrative operating costs, and a tax increase. The government also put into place initiatives to decrease the deficit including increases in highway user tax, increases in stamp tax rates, adding a 4% excise tax on personal imported items above US\$1,000, and focusing on development initiatives targeted at economic growth⁷.

As part of its overall development strategy, the Virgin Islands government has sought to centralize its economic development efforts, implement a focused tourism advertising effort, and accelerate capital investment projects. By the close of FY2005, according to the BER, the territory will have seen a record 2.7 million tourists, and this number is expected to grow even further in FY2006.⁸ Diversification of the economy is also being pursued by the government as an important strategy to create employment and sustain economic growth.

Economic Development Authority

The establishment of the Economic Development Authority (EDA), a centralized agency responsible for the promotion and enhancement of economic development, exemplifies the Virgin Islands government's efforts to create a business friendly environment. According to the agency's website,⁹ the EDA is responsible for developing comprehensive programs with the overall goal of promoting and enhancing the economic development of the Virgin Islands. The EDA also serves as a "one-stop" agency to obtain information on establishing and operating a company on any of the islands.

Tourism Promotion

The Virgin Island Department of Tourism and the Hotel and Tourism Association implemented several tourism promotional packages targeted at increasing overnight visitors. Campaigns such as the "*Summer Super Saver*" and the "*Fall into America's Caribbean*" programs offer specific incentives for booking minimum five-night stays to St. John, St. Thomas, and St. Croix. A cultural exchange with Denmark is intended to attract travelers from that market.

In an effort to increase the number of visitors arriving on the island of St. Croix, the Port Authority has recently completed an expansion of the airport runway to 10,000 feet, which allows large load planes to land. The Henry E. Rohlsen Airport on St. Croix is now capable of hosting most aircraft in service, including those servicing destination in the mainland U.S., Canada, Europe, and South America.¹⁰

Capital Projects¹¹

The Virgin Islands government has also embarked on an ambitious schedule to accelerate the number of government-sponsored capital projects. According to the 2003 Capital Projects Annual Report, the administration has identified solid waste, waste water, schools, roads, medical facilities, and public buildings improvements as part of their long-term strategy for capital investment. Ongoing capital investment projects over the next three years are projected to exceed US\$750 million.

POSITIVE DEVELOPMENTS

Public sector capital investments on St. Croix include:

- Charles Harwood Medical Facility
- Christiansted Boardwalk
- Henry Rolsen Airport Tower

Capital investment projects on St. Thomas and St. John include:

- Enighed Pond Development
- Crown Bay Port Terminal
- Red Hook Terminal

In addition, there is an estimated US\$170 million worth of private sector projects in development or expected to begin over the short term. Such projects include the Yacht Haven Hotel and Marina (US\$150 million), Marriott Frenchmen's Cove (US\$40 million), and Grande Bay Resort Construction (US\$21 million). Over the next two years, private and public capital investment programs intend to create construction-related jobs, and they hope to spur job growth in the tourism and hospitality sector (See Table 2).

Table 2: Capital Development Projects (in US millions)

Public	
Charles Harwood Medical Facility	\$5.0
Christiansen Boardwalk	\$2.0
Henry Rolsen Airport Tower	\$4.5
Enighed Pond Development	\$16.0
Crown Bay Infrastructure Terminal Development	\$35.0
Red Hook Terminal Development	\$9.3
Private	
Yacht Haven Hotel and Marina	\$150.0
Marriott Frenchman's Cove	\$40.0
Grande Bay Resort Construction	\$21.0
Fredericksted Economic Revitalization Project	\$13.0

Source: United States Virgin Island (USVI) Bureau of Economic Research (BER) (2004)

Located almost equidistant from North America and South America, the Virgin Islands is uniquely positioned in the Caribbean. American businesses can take advantage of competitive and comparative advantages in the Virgin Islands, some of which are listed below and explained further in the sections that follow:

- Tax Incentives
- Developed Infrastructure
- Strategic Location and Ease of Access
- Quality of Life and Multi-cultural Population
- Availability of Land
- U.S. Territory Status and Currency

Tax Incentives: The Virgin Islands uses a *mirror system* of taxation following the U.S. Internal Revenue Code. The Islands also retain substantial advantages with their tax incentives, which have been put in place to attract businesses and diversify the Islands' economy. ***Companies qualifying for benefits through the Virgin Islands Economic Development Authority receive tax reductions or exemptions from business taxes, up to 90 percent.*** The benefits last between 10 to 15 years and may be renewed. High taxes can be offset by EDC tax benefits for eligible companies. A more detailed explanation of the tax incentive can be found in *Appendix A*.

The American Jobs Creation Act of 2004 (AJCA) passed late in 2004 included provisions to address problems of tax shelter or tax evasion. The AJCA instructed the IRS and the Treasury to promulgate regulations following the passage of the legislation and clarify the rules and exceptions. The proposed regulations, issued in April 2005, limit the boundaries of residency and income sourcing within which potential investors would have to operate. **The desire to protect legitimate and established businesses has led the federal government to revisit the proposed regulations. A decision is expected to be issued by the end of calendar year 2005.**¹³

Summary of Benefits:

Corporate level - Beneficiary firms may receive a 90% tax liability reduction on corporate income sourced in the U.S. Virgin Islands or effectively connected with a U.S. Virgin Islands trade or business. [Section 934 of Internal Revenue Code of 1986]. Beneficiary firms also receive an exemption from the U.S. Virgin Islands property tax, gross receipt tax, and a reduction in customs duties from 6% to 1% on certain items, as well as an exemption from excise taxes on building materials and raw materials.

Personal level – The owner of a beneficiary firm, if deemed a bona fide resident of the U.S. Virgin Islands, also enjoys a 90% reduction in tax rates on income from dividends, distributions, or allocations from the Virgin Islands. [Residency is determined under 932(c) of the Internal Revenue Code of 1986]

COMPETITIVE AND COMPARATIVE ADVANTAGES

Infrastructure: The Virgin Islands has a well-developed infrastructure, including two modern airports, located on St. Thomas and on St. Croix. The Cyril E. King Airport (CEKA), located on St. Thomas, has a 7,000 foot runway and a terminal with 11 gates. CEKA is host to several major and commuter airlines. The Henry E. Rohlsen Airport (HERA), located on St. Croix, is also served by several major and commuter airlines. The Port Authority recently completed a \$42 million renovation and expansion of HERA. The terminal was expanded to 181,000 square feet, and the runway was extended to 10,000 feet. Access to St. John and Water Island is available from St. Thomas via an inter-island ferry service.

Several major shipping companies provide good to excellent maritime transportation. In addition, St. Croix sits at the nexus of a global fiber optic telecommunications system, which offers potential for state of the art telecommunications and technology access. The Virgin Islands has centralized water and sewer services to core areas.

Strategic Location and Ease of Access: The Virgin Islands is located approximately 1,000 miles southeast of Miami and 70 miles from Puerto Rico. The location of the Virgin Islands offers strategic access to both North and South American continents. The territory is comparatively close to the Panama Canal, providing potential businesses geographical advantages over East Coast markets to Pacific and Asian markets via maritime transport. The strategic location also offers advantages to potential investors interested in expanding into the Eastern Caribbean islands (See Map Below).



Source: <http://worldatlas.com/webimage/countrys/namerica/caribb/vi.htm>

Quality of Life and Unique Cultural Heritage: The natural beauty of the Virgin Islands, the healthy environment, and the moderate climate provide an excellent living environment and an exceptional quality of life. The Virgin Islands unique cultural heritage has deep rooted Caribbean and colonial influence (British, Dutch, Spanish, French and Danes). Remnants of historic cultural influence are reflected in the stunning architecture. The Virgin Islands also has a diverse population with increased migration from the Eastern Caribbean Islands and the Continental U.S. As a territory of the U.S., the Virgin Islands benefits from cultural connections to the mainland.

Availability of Land: On St. Croix there are many available sites and buildings in which business can be established. The affordability and availability of land offers opportunities for business expansion. The St. Croix Renaissance Park is privately held and offers excellent facilities for manufacturing and marine activities, including a world class machine shop, inexpensive water and electricity, and its own port into which ships can be brought. The UVI Research and Technology Park is a joint venture with the University of the Virgin Islands and presents an opportunity for technology and media-focused business to easily relocate and receive tax benefits. The St. Croix Industrial Park provides a starting place for approved Economic Development Companies (EDC). The Port Authority Business Park, adjacent to the Henry E. Rohlsen Airport on St. Croix, offers a high quality business atmosphere with appropriate infrastructure in a unique, convenient location for light industrial, commercial and other specialized businesses. In addition, there are no specific restrictions regarding land ownership in the Virgin Islands.¹⁴

U.S. Territory Status and Currency: As an unincorporated territory, the Virgin Islands has a governance system similar to that of the United States. Companies operating in the Virgin Islands are free from foreign currency risk and are subject to U.S. business and immigration laws. Investors interested in establishing businesses in the Virgin Islands will find familiar tax codes, copyright laws, and U.S. intellectual property protection. The U.S. Postal Service, Federal Express, and United Parcel Service provide the islands with shipments priced at domestic rates. Three major cargo-shipping companies serve the Virgin Islands, with frequent shipments into the secure and modern Virgin Island Port Authority (VIPA) cargo ports. Telephone, cable, and internet service is modern, and direct distance dialing to the U.S. and 800 numbers is available.

The Virgin Islands, especially the island of St. Croix, has significant economic growth potential. St. Croix has the land mass and terrain conducive to a diverse range of industries. Existing infrastructure and natural resources support the growth potential in areas of tourism, manufacturing, e-commerce, information technology, and media and entertainment. Potential opportunities that could be developed to diversify the islands' economy include:

- **Resort / Hotel Construction**
- **Manufacturing**
- **E-Commerce and Information Technology**
- **Maritime**
- **Retirement and Second Home Markets**
- **Agriculture and Aquaculture**

Resort / Hotel Construction

In 2005, according the World and Tourism Council, worldwide travel and tourism is expected to post US\$6.2 trillion in economic activity (Total Demand). By 2015, the travel and tourism industry is projected to grow to US\$10.7 trillion. For the Caribbean region total demand in 2005 is expected to reach US\$45.5 billion, growing to US\$87.77 billion by 2015¹⁵ (See Table 3).

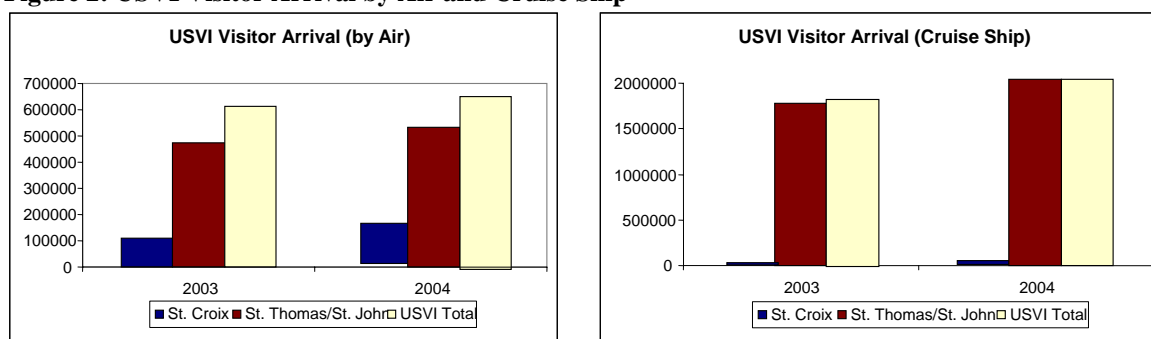
Table 3: Travel and Tourism Industry Information

Worldwide	<ul style="list-style-type: none"> ▪ 2005 – \$6.2 trillion ▪ Projected growth 2015 – \$10.7 trillion
Caribbean	<ul style="list-style-type: none"> ▪ 2004 – \$45.5 billion ▪ Projected growth 2015 – \$87.77 billion

Source: World Travel and Tourism Council (2005)

Tourism is the principal industry in the Virgin Islands, accounting for more than 70 percent of GTP. In 2004, total visitor arrivals reached 2.6 million, up 9.6 percent from 2.4 million the previous year. Cruise passenger arrivals totaled 1,964,689 – an increase of 10.8 percent. Air visitors grew 6.1 percent to 655,011. The first quarter of 2005 shows continues growth in arrivals by cruise ships (2.8 percent) and by air (16.2 percent) over the same period last year.¹⁶ According the Bureau of Economic Research (BER), fiscal year 2005 brought a record 2.7 million tourists to the territory and the trend is expected to continue with total visitor arrivals reaching 2.8 million in fiscal year 2006. The majority of the visitors are concentrated on St. Thomas (See Figure 2).

Figure 2: USVI Visitor Arrival by Air and Cruise Ship



St. Croix remains untapped as a Caribbean destination *and possesses significant tourism potential*. Opportunities exist to expand the visitor market on St. Croix with the development of a flagship hotel with convention facilities, a cultural themed eco-tourism or all-inclusive resort, the establishment of a major destination tourist event (e.g. Caribbean themed cultural festival), and the attraction of cruise ships. The tourism sector can also be expanded to take advantage of potential linkages with the manufacturing (i.e. rum production), craft industry (i.e. pepper sauces, dolls, fabric and textiles etc.), agricultural (i.e. production of locally grown mangoes, vegetables and tea etc.) and cultural/entertainment sectors (i.e. steel band).

An additional area for growth is in sports tourism, especially on St. Croix where there is land for development. Historically, the Virgin Islands has been successful in hosting golf, swimming and basketball events. St. Croix is home to an 18-hole championship course where a successful LPGA golf tournament (Konica U.S. Virgin Islands Golf Classic) was held.

Sector: Travel and Tourism Opportunities

- Flagship Hotel
- Eco-Tourist Resort Cottages & Cabins
- Sports Tourist Event
- Destination Tourist Event

Tourism, from both established and emerging destinations, is an extremely competitive industry. To develop its visitor market, St. Croix could focus on its distinct advantages – the island’s rich historic and cultural roots and the availability of land. In addition to attracting cruise ship passengers, St. Croix could also develop a focused marketing strategy to increase its overnight visitor market, which comparatively contributes much more revenue to the overall economy than cruise ship passengers. The Public Finance Authority (PFA) has ongoing economic revitalization projects that include infrastructure improvements, beautification of points of interest, and development of a new AA baseball stadium. The overnight visitor market can potentially be increased by highlighting unique cultural aspects of the island’s history and further improving the quality of its tourism product to meet the needs of visitors. The development of St. Croix’s tourist market could occur in conjunction with preserving the island’s natural

resources and environment. The Virgin Islands government is willing to work with investors by negotiating 30-year tax exemptions.

Manufacturing

The manufacturing sector in the Virgin Islands is prime for expansion with the availability of several industrial sites. The St. Croix Renaissance Park, the former site of the Alcoa Alumina plant, is ready for occupancy. The site's numerous industrial buildings and infrastructure occupy approximately 310 acres at the center of the 1,244 acre property; the site also includes a deep water port and coastal areas.¹⁷ The aforementioned St. Croix Industrial Park and Port Authority Business Park are additional zoned industrial sites providing opportunities for pharmaceutical manufacturers and developers, cement manufacturers, computer parts assemblers, and synthetic fuel and alternative energy companies to easily establish business operations. Manufacturing firms, due to St. Croix's geographic location, have the potential to capture intra-regional export markets. In addition to receiving economic development benefits, certain manufacturing sectors can benefit from federal programs. Health-related manufacturing, such as medical supplies firms, can take advantage of FDA laws. Watch and jewelry industry assembly producers qualify for benefits through the Department of Commerce Production Incentive Certificate (PIC) program.

Currently, many kinds of specialty or precision machine parts are imported. The St. Croix Renaissance Park has a developed machine plant that can provide a variety of machining capabilities needed by other manufacturers on the islands. An experienced labor force, most of who have years of experience at the closed Alcoa Alumina plant, is also available to be employed in these sectors. Ship repair and maintenance, as well as other marine-supporting industries, could use the resources to provide aluminum or stainless steel components, welding services, refrigeration, navigation tools, custom cabinets, and yacht design.

Sector: Manufacturing Opportunities

- Pharmaceutical and Medical Supplies Manufacturing & Distribution
- Manufacturers and distributors of processed foods
- Ship Repair and Maintenance
- Cement manufacturing companies
- Construction of small and medium-sized pleasure craft and service vessels
- Vessel maintenance companies

Sector: Energy Opportunities

- Companies specializing in synthetic fuels and alternative energy development
-

E-Commerce and Information Technology

St. Croix offers high-quality, broadband telecommunications and data transmission capabilities because of the multi-directional fiber-optics network developed by the Global Crossing facilities. The existing telecommunication infrastructure and broadband

capability provides St. Croix with a unique strategic advantage allowing for the development of a thriving e-commerce and information technology industry.

Specific opportunities include the establishment of research and development firms involved in information technology, film production and distribution companies, e-commerce and other internet-oriented businesses. Firms specializing in computer parts and software assembly, digital map sales, and distribution of downloadable products (e.g. digital music, books, and media) can take advantage of the Global Crossing fiber optics network and the territory's economic development benefits.

Business service operations should explore use of St. Croix as an alternate operating area for security or data-warehousing purposes, as well as a location for call centers and other forms of customer service. In the post-September 11 environment, the territory offers the security of its relationship with the United States, as well as its unique broadband access.

Sector: Information Technology & E-Commerce Opportunities

- Software and System Development
 - Digital Media Technology
 - Entertainment Production and Distribution
 - Visual Graphics Design
 - E-Commerce Companies
 - Data Warehousing
 - Customer Call Centers
-

Maritime Opportunities

St. Croix's territorial status and proximity to the U.S. provide a strategic opportunity to develop the St. Croix Renaissance Park as a site for ship building, repair, and maintenance. The Virgin Islands, located in close proximity to the continental United States, is geographically well-positioned as a site for the maintenance and repair of U.S. vessels.

Many of facilities, on St. Thomas and St. Croix, can accommodate long-term docking. The St. Croix Renaissance Industrial Park has a deep water port that is sheltered and safe from hurricanes. The availability of various ports presents the potential for developing industrial (i.e. heavy cargo shipping) and tourist-oriented (i.e. increased cruise ships, charter boats and yacht dockage) sectors. On St. Thomas and St. John, the increasing number of visitor arrivals provides a growing market for the yacht charters. On St. Croix, the ship building industry currently imports supplies and materials. There is a need for growing demand for ship building services and an opportunity for other support industries to provide components, welding, refrigeration, navigation, custom cabinets, and yacht design.

Sector: Maritime Industry Opportunities

- Ship Repair and Maintenance
 - Construction of small and medium-sized pleasure craft and service vessels
-

- Vessel Component Manufacturing and Support Services
- Cruise Ship Companies

Retirement and Second Home Markets

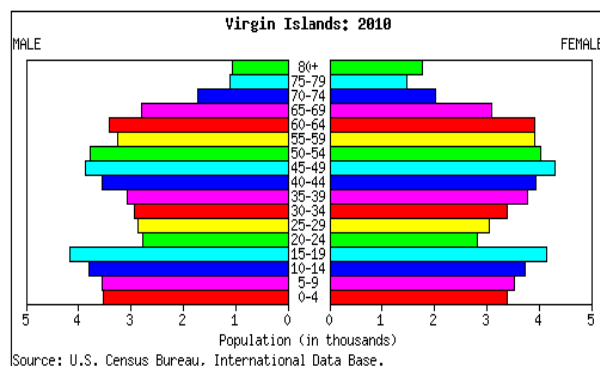
In the Virgin Islands there is an opportunity to develop a continual care facility and/or second home market targeted at both local senior residents and baby boomers currently living in continental U.S. The development of these sectors, as a sustainable economic opportunity, can be attributed to several factors – the shortage of facilities for elderly population in the Virgin Islands and the large number of aging baby boomers in the U.S.

There is currently a shortage of facilities providing continual living care for the elderly in the Virgin Islands. According to the US Census (2003) there are approximately 14,000 people above the age of 60. Since Virgin Islanders are living longer, with an average life expectancy of 78 years, in 2010 the rate is expected to increase (See Figure 3).

Figure 3: Virgin Islands Population 2003 – 2010

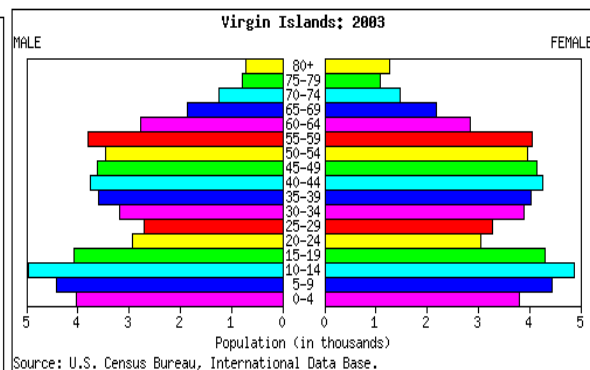
Virgin Islands Population Pyramid for 2010

Predicted age and sex distribution for the year 2010



Virgin Islands Population Pyramid for 2003

Age and sex distribution for the year 2003:



There is a similar trend in the U.S. with the aging the baby boomers. The Baby Boomer generation represents the 76 million persons born in the United States between 1946 and 1964. In 2006, the earliest of the Baby Boomers will begin turning 60 years of age. By the year 2030, all surviving aging Baby Boomers will be between the ages 66 to 84 years, representing one of five Americans¹⁸. The most rapid increase of retirees is therefore expected to occur between the years 2010-2030, when this generation reaches their retirement age.

Provided that there are quality residential homes, hospitals and health/residential care services available, Baby Boomers may consider relocating to the Virgin Islands. The quality of life, the territory's natural beauty, the healthy environment, and the moderate climate provide an excellent environment for retirees. Proximity to the continental U.S. only a few hours away via major airlines (1,075 miles east-southeast of Miami), also contributes to the viable development of this sector.

Development of modern medical, health and wellness centers, residential care home services, and nursing homes are critical factors for the sustainable development of a continual living care community/second home market. The Virgin Islands has two accredited hospitals staffed by U.S. board certified physicians. The hospitals also accept similar health care insurance as on the U.S. mainland. Currently, local hospitals, in partnership with the University of Virgin Islands, have developed nursing programs targeted at increasing the availability of nurses. The development of the Juan Luis Hospital Cardiac Care Unit and Kimelman Cancer Care Center facilities on St. Thomas also provides this population with additional necessary medical support.

The establishment of a retirement community and/or second home market targeting population above the age of 60 years offers further potential to develop satellite businesses (i.e., such as golf, tennis, pharmacies etc.). The continual living community and/or second home market would create new jobs increasing the territory's overall operating budget. The development of satellite businesses would also allow for sustainable economic growth with additional revenues remaining in the local community.

Sector: Health Opportunities

- Real Estate Development
 - Retirement and Life Care Community Design
 - Retirement and Life Care Community Management
 - Hotel Development and Management
-

Agriculture and Aquaculture

Currently, Virgin Islanders are dependent on imports from the continental U.S. for the majority of their agriculture and aquaculture products. The agricultural and aquaculture sector in the Virgin Islands is small or relatively non-existent, comprised of a small number of farmers. All agricultural goods produced on-island are developed for local consumption and sold at various outdoor markets.

Aquaculture production in the Latin America and the Caribbean region (LAC), both in quantity as well as in value, is insignificant when compared to other continents and is relatively new when compared to the ancient aquaculture tradition of Asia. However, in the Latin American and Caribbean region Shrimp production represents approximately 21 percent of the world total shrimp production (GLOBEFISH, 1996).¹⁹

Given the production of agriculture and aquaculture products in the Virgin Islands will be minor relative to world production, in the short term the Virgin Islands can expect not to be as competitive in the development of these products for export. Despite these limitations, the combination of local demand for fresh products, climate ideal for year-round production, and available land gives the agriculture and aquaculture industries potential to further development.

BUSINESS OPPORTUNITIES

The University of the Virgin Islands carries out significant research in agriculture and has been successful in generating revenues by selling its produce, livestock, and fish products. The UVI Agricultural Experiment Station (AES) exports Hair Sheep kids, which have hair rather than fur, fertilized Senepol Cattle embryos, and Holston dairy cattle. UVI AES research focuses on several crops, disease-tolerant and quick-bearing papaya, that are ideal for the climate and soil of the Virgin Islands.²⁰ There is also opportunity for the co-op production of agriculture products to supply the territory's hotels and restaurants, which currently rely on imports. Further, the agriculture and aquaculture products could be sold to the cruise ship industry on a broader scale or processed into non-perishable products (e.g. vinegar, juice, canned fruit etc.) for export.

The UVI AES has been also successful in demonstrating tilapia and lettuce production in a clean environment. The tilapia produced, 540 kg every 6 weeks, provides nitrogen-rich bi-products that supply nutrients for the growth of lettuce and other green leafy vegetables. Greenwater tank culture is an intensive production technology ideal for a tropical, semi-arid environment, such as St. Croix, and is water efficient. The island offers suitable locations and on-island expertise necessary for developing a viable aquaculture industry.²¹

Sector: Aquaculture Opportunities

- Tilapia Farming
 - Fruit Farming
 - Vegetable Farming
 - Tea and Herb Farming
 - Fruit and Vegetable Processing
-

POTENTIAL INVESTORS AND TYPES OF INVESTMENT

University of Virgin Islands (UVI) Research and Technology Park (RTPark) - Under a mandate from the local government, UVI developed a technology park on its St. Croix campus. The park is a global center for e-commerce and technology with a focus on providing an enabling environment for research and development, business incubation and technology-driven businesses. The RTPark provides eCommerce, technology, and knowledge-based businesses a competitive environment to confidently conduct business backed by the U.S. court system and applicable business, intellectual property and tax laws. As of July 2005, the RTPark had signed one tenant and was in negotiation with a number of other interested parties.

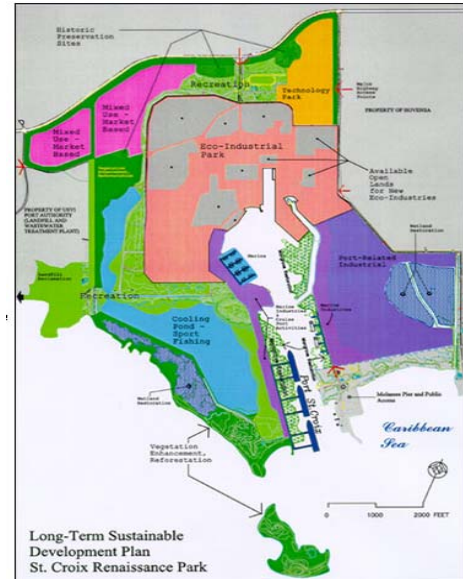
Contact
Malcolm Kirwan, Executive Director, UVI Research & Technology Park Tel: 340-693-1116 Fax: 340-693-1119 Email: mkirwan@uvi.edu Website: http://www.uvirtpark.org

Virgin Shores Life Continual Care Retirement Community (CCRC) - An 85-acre beach front property on St. Croix will be a CCRC that provides and promotes opportunities for self determination, self respect and dignity for the Senior Citizen. Potential tenants will range from senior citizens living independently to individuals needing assisted care. Plans include independent villas and approximately 150 assisted living units, a medical administration and training center, a restaurant and hotel for visitors, and storage facilities. Environmental research is complete and Certificate of Need (CON) has been obtained. Investors/Partners that offer development and management capabilities are desired to develop the project. The project is expected to be capitalized at approximately \$73 million.

Contact
Garfield Doran, Development Manager Tel: 340-690-8641 Fax: 340-7723463 Email: gjdoran@vipowernet.net

POTENTIAL INVESTORS AND TYPES OF INVESTMENT

St. Croix Renaissance Industrial Park -A private property developer, the St. Croix Renaissance Group, purchased the old Alcoa Alumina plant. It is an I1 (heavy industrial) zone, and many of the onsite facilities on this 1,244-acre site remain in good condition, largely due to Alcoa's upgrade and maintenance efforts prior to the plant shutdown. The park is fully equipped with a power generation plant (self-sustaining 6 MW power by coal), desalinization facility (potential to produce 2M gallons of water), deep-water port (350 ft wide by 7000 ft long) that can bunker ships, machine shop, and liquid and salt water storage tanks. The Virgin Islands has an exemption from the federal Jones Act (US Merchant Marine Act of 1920)¹



The Renaissance Group is exploring opportunities in ship bunkering, ship repair and recycling, red mud brick production, and other forms of light manufacturing.

Contact

Myron Allick, Vice President of Operations, St. Croix Renaissance Group, LLLP
 Tel: 340-778-2323 ext 672
 Fax: 340-778-1400
 Email: mallick@stxrenaissance.com

The **Seven Hills Beach and Casino** is a 615 acre-site approximately 5.5 miles southeast of Christiansted's commercial center. The property has approximately 6,000 linear feet of beach along the Caribbean Sea in an area known as Robin Bay. Initial project costs are estimated at \$150 M (including land acquisition). The cost would include the development of a 300 room first class hotel, 100 beachfront condos, golf course, timeshare and residential units.

Contact

Jeffrey Moorhead
 Tel: (340)690-5424
 Email: Jeffrey@viaaccess.net

The **Bethlehem Sugar Factory** project is a 22-acres site aimed at revitalizing the agricultural industry on St. Croix by creating a World-Class agro-tourism destination that is designed around agricultural history and culture. St. Croix Farmers in Action, Inc. is undertaking the renovation and development of the old Bethlehem Sugar Factory and its

¹ The Virgin Islands is exempt from the Jones Act requiring vessels used to transport cargo and passengers between U.S. ports be owned by U.S. citizens, built in U.S. shipyards, and manned by U.S. citizen crew.

POTENTIAL INVESTORS AND TYPES OF INVESTMENT

surrounding ruins in Bethlehem Estate. The project, scheduled to be completed in 3 phases, is aimed at stimulating St. Croix's Tourism industry. The total cost of the re-development of the Bethlehem Sugar Factory site is between US\$6.5 and US\$7.5 million.

Contact
Mr. Kelly Gloger, St. Croix Farmers in Action Tel: (340) 778-4266 Email: ecotech@direcway.com

Carifest - Carifest is a portside dining, entertainment and park experience for cruise ship passengers visiting St. Thomas. A design team, in conjunction with TRA Caribbean, developed the high concept and entertainment program for Carifest. The tourist destination would include a theater, several exhibits, an aviary, a river ride attraction and a restaurant among its facilities. The project provides an opportunity for equity investors.

Contact
Eric Matthews, Director, Carifest Corporation Tel: (340) 775-3620 Fax: (340) 777-5550 Email: carifest@viaccess.net

Estates William and Punch - Located on the west end of St. Croix is a 600-acre property, which includes Estate William and Estate Punch. The first 250 acres of shoreline property would include a 7-8 acre inland marina with public access, a hotel, and 400 timeshare condominiums. The 338 inland acres would house a world class spa, tennis courts, an 18-hole golf course, and approximately 140 single family homes. The owner is looking for partners experienced in hotel management and golf course design to develop a 5-star hotel and resort. The permitting process, which includes submission of a Coastal Zone Management application, is expected to cost US\$1M. The proposed timeline includes 9 months for permitting and 18 months for construction, with targeted completion in 2008.

Contact
Kevin Rames, Attorney Tel: 340-773-7284 Email: kjajrames@vitelcom.net

Bush Tea of the Virgin Islands – Currently selling its product at twenty-four local retail outlets (e.g. Tradewinds, Nature Arts), Bush Tea of the Virgin Islands has been in business for ten years. Sales, averaging 20,000 tea bags per month, are limited by production capacity. The tea, purchased from local farmers, is bagged and packaged it by hand. Vision is to expand business and export to markets in the Caribbean or mainland U.S., where founder Jacquell Dawson-Malbranche has been spotlighted on the Food Network's Food Finds. A capital investment of \$500,000 for machinery (to dry and bag tea), labor, and administration fees would allow Bush Tea of the Virgin Islands to meet additional demand and hire more local farmers.

POTENTIAL INVESTORS AND TYPES OF INVESTMENT

Contact
Jacquel Dawson-Malbranche, Agronomist/Founder, Bush Tea of the Virgin Islands Tel: 340-715-1706 Email: vibushtea@yahoo.com

APPENDIX A – EDC TAX BENEFITS

Under the U.S. Virgin Islands' economic benefit program, the Economic Development Commission (EDC), a division of the Economic Development Authority, evaluates tax benefits to qualified businesses in the U.S. Virgin Islands.

Duration of Benefits:

Benefits are available for 10 years for the islands of St. Thomas and St. John, and the Christiansted District of St. Croix, and for 15 years for the Frederiksted District of St. Croix. Benefits can be extended for 10 years if the applicant is in full compliance with all requirements of EDC and submit completed extension application.

How to Qualify for EDC Benefits:

The principal requirements are as follows:

- (1) Have a minimum capital contribution of US \$100,000, exclusive of inventory
- (2) Employ at least 10 persons full-time, at least 80 of whom are U.S. Virgin Islands residents
- (3) Establish and maintain an employee pension benefit plan, as provided under the Employee Retirement Income Security Act, 29 U.S.C. 1001 et seq.
- (4) Agree to purchase all goods and services available in the territory from U.S. Virgin Islands suppliers that have valid business licenses and are in full payment of their taxes

Eligible Businesses:

- (1) Category I – rum production, milk/dairy production, and watch and jewelry manufacturing and assembly;
- (2) Category II – product assembly, manufacturing (other than in Category I), agriculture/food processing, mariculture/food processing, marine industry, raw materials processing, hotels/guesthouses, transportation, and telecommunication;
- (3) Category IIA – service businesses not limited to, but including, investment managers and advisors, R&D, business and management consultants, software developers, e-commerce businesses, call centers, high tech businesses, international public relations firms, international trading and distribution, and any other businesses serving clients outside the Virgin Islands;
- (4) Category III – utilities, healthcare facilities, recreation facilities, insurance companies, physicians, corporations, and such other industries or businesses as may be deemed appropriate by the EDC.

Application fees range from US\$1,500 to \$2,000 depending on business category of applicant.

Source: Marjorie Rawls Roberts, Attorney at Law, Tax Notes International, April 16, 2001 and October 14, 2002

APPENDIX B – DEVELOPMENT PLANS

The United States Virgin Island Comprehensive Development Strategic Plan

The Comprehensive Economic Development Strategy (CEDS) Plans provides a policy framework for the socio-economic development of the Virgin Islands. The CEDS Plan is a statement of objectives for the territory as a whole and for individual sectors of the economy. It sets priorities of economic policy, and proposes a program of economic measures and methods for the achievement of the objectives.

The Economic Development Plans

The Virgin Islands' economic development plans have been outlined in several key documents:

- U.S. Virgin Islands Five Year Operating and Strategic Financial Plan (2000).
- Comprehensive Economic Development Strategic Plan (2001)
- Comprehensive Land and Water Use Plan
- V.I. Port Authority - St. Croix Economic Development Action Agenda
- The St. Croix Cultural, Historical & Ecological Attraction was developed with the specific intent on developing the St. Croix cultural tourism industry.

USEFUL CONTACTS

Office of the Governor Government House 21-22 Konges Gade St. Thomas, V.I. 00802 Phone: (340) 774-0001 Fax: (340) 774-1361	Government House King Street St. Croix, V.I. 00820 Phone: (340) 773-1404 Fax: (340) 713-9806
Office of the Lt. Governor Recorder of Deeds Tax Assessor Government Hill 18 Kongens Gade St. Thomas, V.I. 00802 Phone: (340) 777-9784 Fax: (340) 774-6953	Recorder of Deeds Tax Assessor 7-8 King Street Christiansted St. Croix, V.I. 00820
Economic Development Authority 1050 Norre Gade, Government Development Bank P.O. Box 305038 St. Thomas, USVI 00803 Phone: (340) 714-1700 Fax: (340) 774-8106 Toll-free: (877) 432-USVI	#4 King Street Frederiksted St. Croix, USVI 00840 Internet: http://www.usvieda.org
Department of Tourism Bureau of Economic Research Film Promotion Office #78 Contant, 1-2-3 Elainco Building P.O. Box 6400 St. Thomas, V.I. 00804 Phone: (340) 774-8784 Fax: (340) 774-4390 Toll-free: (800) 372-8784	Scale House (Tourism only) P.O. Box 4538 Christiansted St. Croix, V.I. 00822 Phone: (340) 773-0495 Fax: (340) 778-3101 Internet: http://www.usvitourism.vi
Small Business Development Center 8000 Nisky Center, Suite 720 St. Thomas, VI 00802 Phone: (340) 776-3206 Fax: (340) 775-3756	1138 King Street, Suite 100 St. Croix, VI 00820 Tel: (340) 719-6555 Fax: (340) 778-3555 Internet: http://rps.uvi.edu/SBDC
Virgin Island Port Authority P. O. Box 301707 St. Thomas, VI 00803 Phone: (340) 774-1629 ext. 638 Fax: (340) 774-0025	P. O. Box 1134 St. Croix, VI 00821 Tel: (340) 778-3131 Fax: (340) 778-1176 Internet: http://www.viport.com

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²¹ Baily, Donald (2005). UVI Greenwater Fish Culture System. University of the Virgin Islands Agricultural Experiment Station, St. Croix, USVI.